

CREDIT BOOM AND CRASH VIEWED THROUGH THE PRISM OF THE FINANCIAL CRISIS IN TRANSITION ECONOMIES

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Abstract: *Rapid credit expansion is another common thread that runs through the narratives of events before the financial crisis, which is observed with particular attention in transition economies such as those of the Western Balkan countries on the way to the EU. Increasing leverage and greater risk-taking through rapid credit expansion, consistent with rising asset prices, often precede crises (although usually recognized only with hindsight). It is one of the important factors affecting the operations of numerous companies, which occurs in the approach to shortages of funds, etc. that is, which preceded the economic crisis, lack of liquidity, etc. Both distant past and more recent episodes of the crisis usually witnessed a period of significant credit growth (and external financing), followed by a crash in the credit markets, together with sharp corrections in property prices, which is the basis for the planned action of state and other authorities, i.e. the companies themselves.*

Keywords: *crisis, business, legal entities, state action.*

1. INTRODUCTION

The emergence of an economic crisis as a consequence of an increase in the number, quantity and type of credit borrowing precedes the emergence of an economic crisis both in companies as carriers of economic activities and at the state level [1-9].

The reaction of state authorities should be prompt to any new situation in the economy, and therefore also to situations related to disruptions in cash flows, lack of money, and other things that are the focus of numerous real researches [10-18].

Greater risk-taking through rapid credit expansion, in accordance with the increase in property prices, often precedes crises that are particularly manifested in the work and operations of transition economies that are subject to the strong effects of money supply

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disturbances, primarily in the operations of companies operating in the real economy [19-27].

The impact on the operations of numerous companies can be manifested through the state of lack of real funds and other manifestations, which fundamentally precede the economic crisis, the lack of liquidity and a long time in the operations of the real economy [28-35].

2. PRESENTATION OF THE REAL SITUATION PRECEDING THE CRISES RELATING TO THE BUSINESS OF THE REAL ECONOMY SECTOR

In many respects, descriptions of the Australian boom and bust of the 1880s-90s, for example, correspond to more recent episodes of financial instability. Similarly, the patterns before the East Asian financial crisis of the late 1990s resembled those of the earlier Nordic countries, as banking systems collapsed after a period of rapid growth in real estate-related credit.

The experience of the United States in the late 1920s and early 1930s shows some characteristics similar to the run-up to the recent global financial crisis with, in addition to rapid increases in property prices and land speculation, a sharp increase in (household) leverage. The literature has also documented common patterns in various other macroeconomic and financial variables around these episodes. A credit boom can be triggered by a wide range of factors, including shocks and structural changes in markets. Shocks that can lead to a credit boom include changes in productivity, economic policy, and capital flows. Some credit booms are usually associated with positive productivity shocks. They generally begin during or after a period of strong economic growth. Lagged GDP growth is positively associated with the likelihood of a credit boom: in the three-year period preceding the boom, the average real GDP growth rate reaches 5.1 percent, compared to 3.4 percent during the quiet three-year period.

A sharp increase in international financial flows can fuel a credit boom. Most national financial markets are influenced by global conditions, even today, which makes it easy for asset bubbles to spill across borders. Fluctuations in capital flows can amplify movements in local financial markets when inflows lead to a significant increase in funds available to banks, easing credit constraints for corporations and households.

The rapid expansion of credit and the sharp rise in the prices of houses and other assets were indeed associated with large capital inflows in many countries before the recent

financial crisis. Accommodative monetary policies, especially when in place for a long period, have been associated with credit growth and excessive risk-taking. The channel is next. Interest rates affect property prices and the borrower's net worth, in turn affecting lending conditions.

Analytical models, including the relationship between agency problems and interest rates, suggest more risk-taking when interest rates fall and flight to quality when interest rates rise, with consequent effects on the availability of external financing. Empirical evidence supports such a channel because credit standards tend to loosen when interest rates fall. Relatively low interest rates in the USA during 2001-2004. are often cited as the main factor behind the rapid rise in house prices and household leverage.

3. OTHER FACTORS AFFECTING THE GENERAL SITUATION IN RELATION TO THE OVERALL BUSINESS OF THE ECONOMY

Structural factors include financial liberalization and innovation. Financial liberalization, especially when poorly designed or deployed, and financial innovation can trigger credit booms and lead to excessive leverage by borrowers and lenders by facilitating greater risk-taking. Indeed, financial liberalization has been found to often precede crises in empirical studies.

About a third of the booms they identify follow or coincide with episodes of financial liberalization. The mechanisms involved include institutional weaknesses as well as perverse effects of competition.

One channel appears to be that regulation, oversight, and market discipline are slow to catch up with greater competition and innovation (perhaps triggered by shocks or liberalization). Vulnerabilities in credit markets can occur naturally. Another mechanism that usually links booms to crises is a decline in credit standards. Greater competition in financial services, while generally increasing efficiency and stability over the long term, may contribute to financial fragility over shorter periods. For the most recent crisis in the United States, this was evident in higher delinquency rates in those metropolitan areas with higher loan origination growth prior to the onset of the crisis, with the deterioration in lending standards partly related to increased competition.

4. POSSIBLE EFFECTS OF THE FINANCIAL CRISIS ON BUSINESS WITHIN THE FRAMEWORK OF STATE PERCEPTIONS

The financial crisis is often associated with one or more frameworks of action such as the following phenomena:

1. significant changes in the volume of loans and property prices;
2. serious disruptions in financial intermediation and supply of external financing to various actors in the economy;
3. major problems with the balance sheet (companies, households, financial intermediaries and the state); and large state support (in the form of liquidity support and recapitalization).

As such, financial crises are typically multidimensional events and difficult to characterize using a single indicator. Financial crises were often preceded by situations such as property and credit booms that eventually turned into crashes.

Many theories focusing on the sources of crises have recognized the importance of booms in asset and credit markets.

However, it has been challenging to explain why asset price bubbles or credit booms are allowed to continue and eventually become unsustainable and turn into crashes or busts. This of course requires an answer as to why neither financial market participants nor policy makers anticipate the risks and try to slow down credit expansion and asset price increases.

The dynamics of macroeconomic and financial variables around crises have been extensively studied. Empirical studies have documented different stages of financial crises, from initial small-scale financial disturbances to major national, regional or even global crises.

They also described how, after a financial crisis, asset prices and credit growth can remain depressed for a long time, and how crises can have long-lasting effects on the real economy. Given their central role, we next briefly discuss the development of asset and credit markets in relation to financial crises.

5. THE SOLUTION TO EXIT CAN BE IN THE DIGITAL TRANSFORMATION OF THE REAL BUSINESS SECTOR

Digital transformation is observed in the trending range of influence, and the author presented it in Figure 1-2.

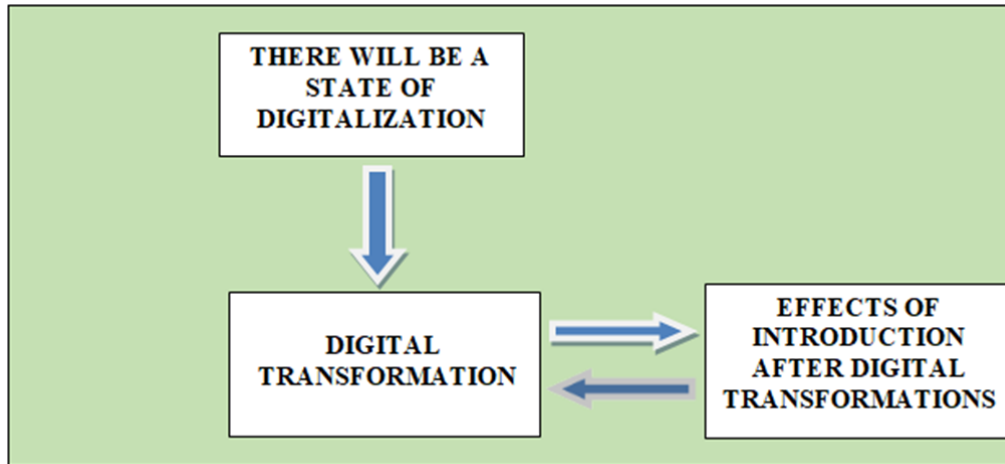


Fig. 1. Digital transformation in the economy

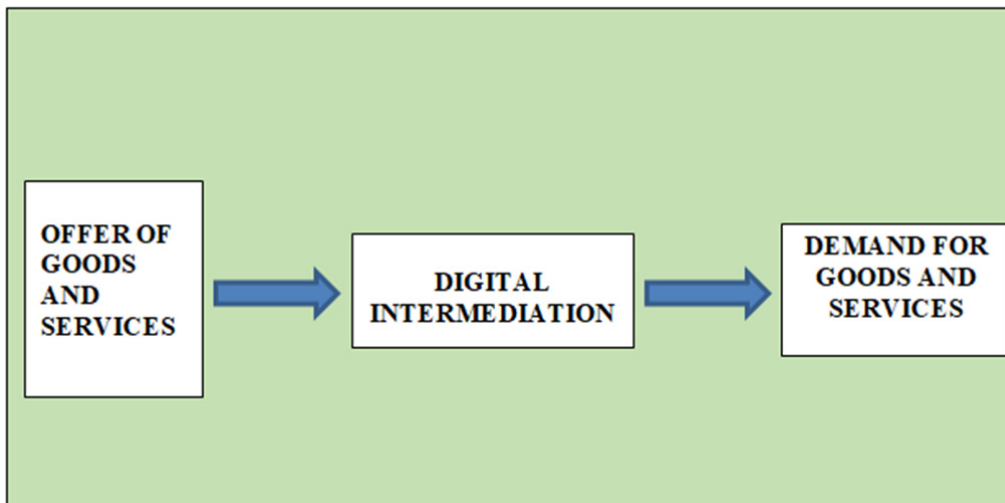


Fig. 2. Digital intermediation in the economy

6. CONCLUSION

Observing a rapid increase in credit is another important feature of importance for the emergence of an economic or financial crisis, which is observed with particular attention in transition economies such as the economies of the Western Balkan countries that are on the way to the EU. Substantial risk-taking through rapid credit expansion, in accordance with the increase in property prices from citizens to business operations of companies, held bodies and their assets, often precede crises. to shortages of funds, etc. that is, which preceded the economic crisis, lack of liquidity and other essential effects on business. Essentially, this can be prevented if assets are viewed in a realistic way so that there is no collapse in the credit markets, together with sharp corrections of asset prices, which is the basis for the planned action of state and other authorities, i.e. the companies themselves.

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